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SUBJECT: FINANCIAL SECTOR REFORM: INSURANCE SECTOR

Sensitive but Unclassified. Not for Internet distribution.

SUMMARY

¶1. (SBU) Econoff met with Mahmoud Abdallah, head of the new Egyptian Holding Company for Insurance, to discuss insurance sector reform. Although the Ministry of Investment (MOI) planned to privatize only one of the four public insurance companies, Abdallah convinced Minister of Investment Mohieldin to restructure and privatize all four companies. Restructuring will involve three phases: 1) due diligence; 2) assessment; and 3) re-grouping into new firms focused on specific insurance types, e.g., life, health, property, etc. Abdallah predicted the first restructured company would be privatized by mid-2007. Although the GOE has already missed the deadline for privatization of an insurance company in the U.S.-Egypt Financial Sector MOU, Abdallah was unworried. He maintained that restructuring was needed to attract buyers and noted that the first tranche of a World Bank loan for financial reform would soon be disbursed. Private insurance companies have welcomed the restructuring plan, believing it will invigorate the insurance sector, which suffers from a poor image among Egyptians. End summary.

RESTRUCTURING AND PRIVATIZING THE WHOLE SECTOR

¶2. (SBU) As part of the GOE financial sector reform program, MOI recently established the Egyptian Insurance Holding Company to manage the four public insurance companies: Misr, Al Chark, National, and Egyptian Reinsurance. Econoff met with Mahmoud Abdallah, Chairman of the holding company and an Egyptian-American. Abdallah is the former Chairman of American Reinsurance, at one time the largest reinsurance company in the U.S. Abdallah explained that when Mohieldin asked him to head the holding company, the goal was to privatize only one of the public companies, in line with the Financial Sector MOU. Abdallah convinced Mohieldin that all four companies, which dominate Egypt's insurance market, needed restructuring and privatization. In exchange for agreeing to head the holding company, Mohieldin allowed Abdallah to develop a plan to restructure and privatize all the public companies.

¶3. (SBU) According to Abdallah, in their current state, none of the public companies are attractive to buyers. Each company offers the full range of policies, i.e., life, health, property, etc., and none excels in any area. Restructuring is needed to turn the companies into viable, competitive entities that can attract private sector

interest. The first phase of the restructuring, due diligence of all four companies, is already complete. The due diligence found one company bankrupt, another close to bankruptcy, a third in adequate condition and a fourth profiting from investments, but not premiums. The second and current phase of restructuring is an assessment of each company's assets. Ernst & Young and Milliman Actuarials, inter alia, are conducting the assessment, which will be completed by the end of the year. The third and final phase of restructuring will be re-grouping of the existing companies' assets into new firms focused on specific policy types, such as life, health, property, etc. The new companies will then be put up for sale one by one, starting in mid-2007.

U.S. ASSISTANCE WELCOME, BUT NOT A MAJOR CONCERN

14. (SBU) Abdallah was sanguine when discussing the restructuring plan, even when econoff pointed out that the GOE had already missed the 12/31/2005 deadline for privatization of an insurance company specified in the Financial Sector MOU. He maintained that without the lengthy restructuring process, no private investors would consider buying any of the public companies, even the one turning a profit. He also noted that the GOE would soon receive a \$500 million loan from the World Bank (WB), the first tranche of a total \$1 billion loan to support financial sector reform. Comment: Besides alluding to the fact that the WB's \$500 million loan is obviously more important than the \$25 million tied to insurance privatization in the Financial Sector MOU, Abdallah also seemed to imply the GOE's commitment to insurance sector reform was not dependent on donor assistance. End comment.

PRIVATE SECTOR POSITIVE ON RESTRUCTURING PLANS

15. (SBU) Private sector insurance companies are largely supportive of the GOE's plans to restructure the public firms. Mujib Khan, Deputy Chairman of AIG International in Egypt, echoed Abdallah's view that none of the public companies, in their current state, could attract investors. Moreover, restructuring should have an overall positive effect on the sector. Khan explained that the main problem in Egypt's insurance sector is lack of a competitive, service orientation. The public companies, which have 90 percent of the market share, focus mainly on actuarial work, rather than sales. Moreover, like many sectors in Egypt's economy, jobs are handed out in public companies based on friendships, family ties, etc., rather than competence. To address this, the Egyptian Insurance Supervisory Authority has draft legislation allowing financial brokers, rather than just insurance agents, to sell policies. Parliament will consider the legislation in its upcoming session. Khan was hopeful that the introduction of brokers would complement the restructure and boost overall productivity in the insurance field.

16. (SBU) Khan also commented that the Egyptian public remains skeptical of the concept of insurance, particularly personal policies such as life insurance. Insurance companies have a negative image, and are seen as "predators," seeking to rob customers of their money, rather than as safe institutions in which to invest. AIG began a media campaign a few months ago to increase awareness of insurance as a form of investment and "make it respectable." The AIG campaign encouraged other private firms to follow suit. Insurance, however, remains a less attractive investment option for most Egyptians, whose savings are still largely directed to the country's bull stock market.

JONES